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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

JULY 1985

CENTRAL AMERICAN MONTHLY REPORT #24 [REDACTED]

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PERSPECTIVE

The Sandinistas have turned the impasse they created in June in regional peace talks to some advantage, and will try to exploit the Contadora mediators' growing sense of impatience to extract still more concessions. The Contadora countries--principally Mexico, Venezuela, and Colombia--are deeply concerned that a collapse in the talks will lead to an expanded US military presence. As a result, in an effort to keep Managua in the talks they have acquiesced to Nicaraguan pressure to substitute bilateral for multilateral discussions, at least in the next round. The Core Four Central American countries--Guatemala, Honduras, El Salvador, and Costa Rica--feel increasingly frustrated in the face of Contadora efforts to achieve an agreement at the expense of their interests. [REDACTED]

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This memorandum was prepared by the Central America North and South Branches, ALA. It was coordinated with the Directorate of Operations. It contains information available as of 1 August 1985. Questions and comments are welcome and should be addressed to Chief, Middle America-Caribbean Division, ALA, [REDACTED]

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Following their first meeting since Nicaragua walked out of the talks in June, the Contadora countries issued a communique highly favorable to Managua. They called for a renewal of direct talks between the US and the Sandinistas, and invited Nicaragua and Costa Rica to undertake bilateral talks in August to address border tensions. They also endorsed the idea of "support groups" composed of other Latin American nations--likely more sympathetic to Nicaragua--that would serve as advisers to the negotiating process. As a way to bring the peace process to a speedy conclusion, the Contadora vice foreign ministers announced their intention to visit each Central American country to try to reach a consensus on sensitive security issues related to treaty implementation. A high-level Panamanian official told the US Embassy that the mediating countries would turn the negotiations over to the UN if their efforts did not produce a treaty acceptable to all of the Central Americans by this fall. [REDACTED]

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The Contadora countries' decision to schedule separate meetings with the Central Americans is intended to give the appearance that the multilateral dimension of the talks is being preserved. In our view, however, this tactic of sidestepping multilateral meetings tends to limit the Core Four's ability to press their interests, which have traditionally been at odds with the more accommodating Contadora group. At the same time, bilateral discussions give the Contadora mediators inordinate influence over the final draft treaty. [REDACTED]

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So far, the Central Americans have reacted rather strongly to the Contadora communique and they will likely resist the mediators' "divide and conquer" strategy:

- The Hondurans have told the US Embassy that they, along with the Salvadorans, tried to convince Costa Rican President Monge to avoid entering bilateral border discussions with the Sandinistas. Tegucigalpa also stated that it would welcome the vice ministers' delegation, but that it would not discuss Contadora issues outside multilateral negotiating sessions.
- San Salvador, according to the US Embassy, holds similar views, accusing the Contadora countries of trying to "stampede" the Central Americans into an agreement and stating that it would not discuss substantive issues with the delegation.
- The Guatemalans, who have in the past been the least active and cooperative of the Core Four countries, have told the US Embassy that they were angered by the communique, saying that it represented unwarranted interference in Central American affairs. The Foreign Minister also reaffirmed his government's strong opposition to the Sandinistas and tried to downplay recent statements by Chief of State Mejia suggesting that Guatemala could coexist with a Communist-controlled Nicaragua.

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[REDACTED]

--San Jose has tried to assuage concerns about its decision to enter bilateral talks, defining stringent conditions for their commencement and telling the US Embassy that any agreement would have to be part of a larger regional settlement. President Monge also has strongly criticized the Nicaraguans in a recent speech intended to underscore Costa Rica's deep ideological differences with the Sandinistas. [REDACTED]

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Given the gains from their walkout, we expect the Sandinistas to continue their tough stance toward Contadora in order to increase pressure on the US to enter direct negotiations. We expect San Salvador and Tegucigalpa to lobby the other Central Americans to avoid any substantive discussions with the vice ministers' delegation, and to serve notice that they want to resume negotiations in a truly multilateral forum. The Costa Ricans, sensitive to regional criticism of their decision to enter into bilateral border talks with Managua, will likely agree. Although the Guatemalans will also probably support a tougher stance, at least in the short run, we believe their recent endorsement of a Central American summit meeting underscores their closer alignment with Mexico on regional issues and their continuing public ambivalence in their position toward the Sandinistas. [REDACTED]

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The Contadora countries see the July communique as an important step in reactivating the negotiating process. They have strong incentives to continue working toward an acceptable formula, even if their consultations in Central America fail to bear fruit. They will probably continue to see the negotiations as a check on an expanded US military presence in the region and as a way to maintain at least some leverage on Managua. If the Central Americans refuse to yield to Contadora's pressure, the mediators may go ahead and produce another draft treaty to maintain the momentum of the negotiations. The Contadora group also may use the threat of abandoning the negotiations to pressure the US to be more flexible on resuming direct talks with the Sandinistas. [REDACTED]

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NICARAGUA

President Ortega's address at the sixth Sandinista anniversary celebration in July was devoted principally to rebutting US charges of Nicaraguan involvement in terrorism and did not announce any new initiatives. No high-level foreign visitors attended, although Communist countries were well represented, with at least one central committee member present from each. The US Embassy estimates that some 300,000 turned out for the ceremony, a crowd several times larger than last year's. It constituted an impressive demonstration of the regime's organizational ability, which may be interpreted abroad as a sign of continuing popular support. [REDACTED]

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Foreign Minister D'Escoto's fast for peace neared its fourth week as the month ended, amid extensive publicity in the pro-regime press. The Catholic hierarchy at first

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ignored D'Escoto's mixture of religious and political themes, but the government's declaration of a national day of fasting and prayer on 26 July provoked the bishops not only to denounce attempts to usurp their authority to give pastoral guidance, but also to challenge the government on other issues. The bishops condemned disrespect and slanderous accusations against the Church in the Sandinista press, renewed their call for an all-inclusive national dialogue, and noted that the government had discontinued Church-state talks. Cardinal Obando labelled the regime a "false prophet."

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Managua is again taking a harder line toward its domestic opponents to weaken them further and probably to prevent them from capitalizing on declining enthusiasm for the revolution. Indications of this campaign include Ortega's public refusal to renew talks with opposition parties outside the National Assembly, additional regime statements that these parties will have little role in drafting the new constitution, and a vituperative press interview by the head of Sandinista State Security in which he accused virtually all opposition groups of collaborating with the CIA.

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Meanwhile, on the military front, insurgent operations during July returned to previous high levels following the reinfiltration of large numbers of combatants after resupplying in Honduras. The Nicaraguan Democratic Front (FDN) reports a total of some 17,500 troops, and as of mid-month about 13,000 were operating inside Nicaragua. Implementing their reported plan to attack the military, the infrastructure, and local Sandinista officials, they damaged or destroyed several important bridges, including one near the key central corridor, sabotaged electrical towers near Jinotega, and defeated an Army unit at San Jeronimo and then routed its command post. They also held a town along the Rama road for several hours, ambushing a military truck and abducting several local Sandinista leaders. In addition, rebels--reportedly from Eden Pastora's force--attacked the ferry service between the east coast port of Bluefields and Rama several times, burning the original ferry early in the month and later attacking its replacement, causing several casualties.

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With its own logistics and financial base improved, the FDN has been able to provide supplies and weapons to smaller groups in the south and along the east coast, which we expect to lead to increased pressures for greater guerrilla unity. Since mid-June, the FDN made four deliveries to a small group operating south of Lake Nicaragua

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Responding to the rebels' success in returning to Nicaragua, Managua directed Luis Carrion, Vice Minister of the Interior, to work full-time organizing the counterinsurgency effort in the northwest. In early July, all of the counterinsurgency battalions were deployed in the vicinity of the Bocay River valley, a main insurgent infiltration route, and in the central highlands where fighting was concentrated. As the month progressed, some units were deployed to the northwest where rebel movement and operations were increasing. The Sandinistas also continued to monitor insurgent and Honduran military movements inside Honduras, shelling across the border several times. In addition, Managua continued to maintain pressure on the bedraggled forces in the south, strafing and bombing targets near a Costa Rican border guard outpost.

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Although no incidents were reported, the Sandinistas tightened security to prevent rebels from disrupting the July 19th sixth anniversary celebration of the revolution,

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The regime also used the occasion to announce that 200,000 weapons were being distributed to the populace to be used in the event of a US invasion, but we believe they were likely delivered to militia or reserve storage facilities.

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EL SALVADOR

The guerrillas intensified their use of terrorism and urban agitation this month, providing further indication that the Salvadoran armed forces' nearly constant operations in rural areas have forced the insurgents to refocus their efforts away from military targets. A total of 16 civilians were killed or wounded during the month by indiscriminate rebel gunfire, while other civilian casualties reportedly were caused by guerrilla mines. The rebels also continued to kidnap local officials and killed another small-town mayor--at least the third such killing since the March elections.

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the insurgents have succeeded in penetrating some labor unions and the national university. Some 15,000 workers demonstrated in San Salvador on 23 July, demanding the release of arrested labor leaders and declaring a one-day strike. The US Embassy reports that some students and faculty at the university are helping the insurgents infiltrate the capital and allowing them to recruit on campus. Leadership disputes in the democratic unions and economic stagnation will provide the rebels with opportunities for further agitation, perhaps leading to a general strike later this year.

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The Army and Air Force struck back at the Revolutionary Party of Central American Workers (PRTC), the faction responsible for the slaying of the US Marines and others last month. Several air and ground attacks resulted in some 25 killed and the capture of 10 guerrillas--

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GUATEMALA

We believe that Guatemala's endorsement of a Central American summit meeting to include Nicaragua, as well as other recent moves, reflects its closer alignment with Mexico on some regional issues designed to increase bilateral cooperation and promote an image of greater flexibility internationally. Chief of State Mejia's actions--while on the surface controversial--are consistent with the military regime's desire to ensure an uninterrupted flow of Mexican oil and increased cooperation on refugee and other border issues, particularly the use of Mexican territory for Guatemalan insurgent safehaven and resupply. The anticipated media coverage of a regional summit--which Guatemala hopes

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[redacted]

to host--also would increase international attention on the November national elections, which are viewed by the armed forces as a springboard to greater foreign military and economic assistance. [redacted]

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Internal political dynamics also may be encouraging Guatemala to adopt a more conciliatory attitude toward Managua. As the chief architect of Guatemalan foreign policy, Foreign Minister Andrade--who also has presidential ambitions--may be jockeying for an advisory role in the new government as a means to retain his current level of influence. In our view, Andrade may be attempting to steer the country toward a more "moderate" foreign policy in anticipation of a centrist party victory this fall. [redacted]

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Guatemala's regional moves also take place amid signs that the country's economic problems are worsening. The continuing foreign exchange shortage prompted the Central Bank to sell 20 percent of the country's gold reserves in July to raise \$30 million for oil imports. The government also enacted new foreign exchange regulations designed to reduce the amount of export earnings being diverted to the black market. Moreover, recent consumer price information reported by the US Embassy indicated annual inflation is running at 20 percent--well above last year's 5 percent--largely due to a sharp monetary depreciation. [redacted]

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HONDURAS

Honduras appears increasingly concerned about trends in current diplomatic efforts to achieve peace with Nicaragua and solve its longstanding border dispute with El Salvador. According to the US Embassy, President Suazo and Foreign Minister Paz believe the July Contadora communique rewards Nicaragua for its intransigence and disregards key treaty provisions. Tegucigalpa views Costa Rica's moves toward bilateral negotiations with Nicaragua as undermining the peace process and sees Guatemala as an unreliable partner. Moreover, Paz told the Embassy that El Salvador's new Foreign Minister is too inexperienced to withstand pressures by the Contadora mediators. Further threatening Central American unity in July was the aggravation of tensions between Honduras and El Salvador caused by the failure of talks between Presidents Suazo and Duarte to resolve their border problem. Although Foreign Ministry advisers in Tegucigalpa say a subsequent round of border discussions has made some progress, a continuing exchange of accusations of border violations since mid-month underscores both countries' belief that an agreement is unlikely soon. [redacted]

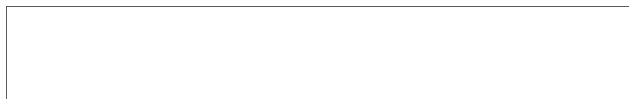
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COSTA RICA


Costa Rican expectations were dashed at mid-month when the OAS neither censured Nicaragua nor requested reparations for the killing of two civil guardsman in the cross border attack of 31 May. Instead, the OAS repudiated the incident, endorsed the commission's fact-finding report, and called for bilateral talks within the Contadora

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framework. Meanwhile, repeated Nicaraguan border incursions--including the air incursions of 26 and 30 July--probably are intended to press San Jose to agree to establish a demilitarized zone. We believe they more likely will lead President Monge to take a tough stand on bilateral talks. 

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PANAMA

The specter of more labor unrest, difficulty in moving the "National Dialogue" forward, and the dissatisfaction of both military and administration officials continue to generate doubts about the durability of President Barletta's administration. In response to strike activity at the beginning of the month, the government agreed to meet with labor, business, and agricultural representatives to reach a national consensus on labor and industrial reforms. Little progress, however, has resulted from the talks, which have been characterized by carping on all sides.  some private sector and government leaders continue to be frustrated by Barletta's failure to consult with them.  performance  military, according to an informant  says that Barletta plans to convene a special legislative session to pass pending labor code reforms, despite his announcement to the contrary. According to the same source, the military--motivated by its financial interests and desire to prevent labor demonstrations--has plans to send labor leaders into exile if they are uncooperative. Although the military's successful manipulation of labor has precedence, the combination of worker dissatisfaction, broad discontent with the weak government, and military concern about its image could precipitate another crisis and once again threaten Barletta's government. 

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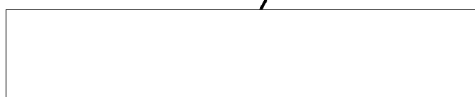
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NICARAGUAN TRAVEL/VISITS

23 June-
12 July

Nicaraguan Vice President Ramirez visits Brazil, Peru, Uruguay, Argentina, and Contadora countries, ostensibly to seek renewed support for Contadora. 

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Late June

Chinese Communist Party officials visit Nicaragua for the first time. 

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25 July

Nicaraguan Deputy Foreign Minister Tinoco departs for Czechoslovakia, Bulgaria, and Germany. 

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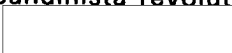
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SIGNIFICANT NICARAGUAN POLITICAL EVENTS

July 1985

Early July	Nicaragua renews request for bilateral discussions with Costa Rica on border issues. 	
7 July	Nicaraguan Foreign Minister D'Escoto begins indefinite hunger strike to call for end to US "aggression" against Nicaragua. 	25X1
19 July	President Ortega's speech at ceremonies commemorating the sixth anniversary of the Sandinista revolution rebuts claims that Nicaragua supports terrorism. 	25X1
26 July	Ortega declares a national day of fasting in solidarity with D'Escoto.	25X1



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[Redacted]

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NICARAGUA MILITARY BUILDUP

July 1985

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Sandinista National Directorate member Bayardo Arce informs Socialist International gathering in Stockholm that Nicaragua will acquire new antiaircraft missiles not introduced into region before.

[Redacted]

3-10 July

[Redacted] arrival of mobile ground control equipment, permitting some Sandinista Air Force operations to be transferred to Punta Huete Airfield. [Redacted]

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Four O-2 light aircraft and one AN-26 transport present at Punta Huete as well as two MI-8/17 and four MI-24/25 helicopters

[Redacted]

[Redacted]

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Construction of fuel tanks continues at Punta Huete.

[Redacted]

[Redacted]

[Redacted]

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[Redacted]

13-17 July

Nothing new to report.

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CHRONOLOGY OF ARMS FLOW INTO EL SALVADOR

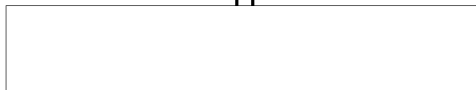
There was no new reporting on external support to the insurgents this month.

COMING EVENTS IN CENTRAL AMERICA DURING AUGUST

2-8 August	Contadora vice foreign ministers meeting separately with Central American countries to discuss draft treaty. 	25X1
4 August	Salvadoran Vice President and Foreign Minister Castillo begins private visit to US. 	25X1
6 August	Salvadoran bishops to issue pastoral letter on Church's position on dialogue between government and guerrillas. 	25X1
Early August	Sandinista National Liberation Front party assembly to meet. 	25X1



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